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Paris Conference May Improve East-West Trade

CHICAGO—The conduct of the Soviet delegation during the entire Paris conference makes it reasonably certain there will be no unification of Germany, no German peace treaty, and no general German settlement at this time. It might have been otherwise. Before the conference opened there seemed reason to believe Moscow had drawn the logical conclusions from the failure of the Berlin blockade. From Warsaw came reports that the Soviet government would propose an immediate peace treaty for Germany, immediate formation of a united German government, and evacuation of all occupation armies from Germany.

No German Settlement

These reports suggested that Russia, abandoning hope of winning all Europe by the pressure tactics of the past two years, was prepared to switch to longer-run tactics. Russia was expected first to woo German public opinion by making a troop evacuation proposal that we would have been compelled to reject. Beyond that the Kremlin seemed to have in mind an adaptation of the old Schachtian technique of securing ultimate political control of regions by first developing close economic ties with them.

A united German government, no matter how anti-Communist, would inevitably seek markets for West German industrial goods in the Soviet-controlled Balkans. Once these ties were thoroughly re-established, Moscow's threat to cut West German industry off from its markets would have provided the Kremlin with a powerful weapon over any future German

government. Through such means, as well as other pressures, Moscow might have ultimately won Germany for the Soviet bloc.

But Vishinsky at Paris has not followed the expected course. Whether because of fear that German communism might turn

In view of the historic significance of the Big Four conference on Germany which opened in Paris on May 23, the Foreign Policy Association has invited four outstanding journalists and commentators who are active in the FPA in different parts of the country to express their opinions on these negotiations.

into *Nationalkommunismus* or for other reasons—possibly Polish restiveness at the prospect of a united and eventually much stronger Fourth Reich—Vishinsky proposed no German political unity, and he was prepared to accept economic unification only under conditions which had proved unworkable in the past and would clearly have proved unworkable again in the future. Vishinsky's castigation of the Western unification plan in seven hours of conference oratory on May 30 and May 31 made it clear that Russia will not tolerate German unification under the Bonn constitution and free elections.

Politically, this is perhaps advantageous to the West from the short-run point of view. It means that the Germans, regarding half a loaf as better than none, will do their best to make the three-zone West

German government a success. It means that the West escapes completely from the adverse reaction of German public opinion that might have resulted had Moscow proposed the complete evacuation of Germany by occupation forces and the immediate formation of a four-zone free German government.

At the same time, Moscow's behavior means that the Paris conference will bring no German settlement and hence no prelude to a general European settlement, and this—whatever immediate political advantages we may derive from Russia's negative attitude at Paris—is by no means an advantage to the West in the long run. Clearly, sights must now be lowered where these negotiations are concerned. There is still opportunity, however, for bargaining and for limited agreements. Some further progress may be made toward settlement of the Berlin issue, but that, while desirable, is not fundamental. More important is the issue of trade across the Iron Curtain.

East-West Trade

The unidentified "Student of Europe," writing in the May 22 issue of the well-informed London *Observer*, predicted on the eve of the opening of the Paris conference that Moscow would not permit any fundamental settlement at Paris and at most would seek a revival of East-West trade in exchange for a satisfactory settlement of the Berlin issue. The *Observer* warns the West against accepting such an arrangement, on the grounds already set forth in this article—that with a resumption of a full flow of capital goods from

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Western Germany to Russia and to Russia's Balkan neighbors, Moscow would achieve such an economic stranglehold on Germany that eventual political control would inevitably follow.

This danger is real. Yet there is another side of the picture with which the *Observer's* "Student of Europe" fails to deal adequately. It is that in a fluctuating Western economy the additional competition which will result if West Germany has to sell its industrial output in the Americas and in Western Europe may so upset the balance of payments of Marshall plan nations that they will never

fully recover independence of subsidies from this country. Whether the United States would be prepared to continue Marshall-plan type subsidies in perpetuity is an open question. Also, an industrial West Germany forced to dispose of its output in a bitterly competitive Western World market might suffer from acute and prolonged depression, which in itself could be fertile ground for communism in West Germany. Those of us who went to school in Germany in the period between wars saw similar conditions help wreck one German republic and lead to totalitarianism of a different sort.

So the issue of reactivating trans-Iron Curtain trade, which seems the principal issue still left open by the Paris conference, is not an easy one. There are risks to the West both if such trade is substantially expanded and if it is avoided. Fully recognizing the risks, this commentator feels it would be a mistake to reject all efforts to expand such trade if, as seems possible, Moscow, having made progress impossible on the larger issues, proves willing to negotiate realistically on economic matters.

CLIFTON M. UTLEY

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Piecemeal Approach On U.S. Policy Threatens Point Four

WASHINGTON—The concern for public economy which members of Congress have shown in their discussion of foreign policy programs since early this year has delayed the Administration's attempt to translate into a specific plan Point Four of President Truman's Inaugural Address of January 20, in which he proposed a "bold new program" for the development of backward areas overseas.

The economy mood of the Capitol indicates that presentation now by the Administration of a request for statutory authority and funds to launch Point Four would come too late for action at this session. Yet the Administration hesitated to ask for authority earlier lest the request for additional foreign policy funds consolidate the economy bloc which is currently attempting to reduce the appropriation for the Economic Co-operation Administration even below the \$3,568,470,000 recommended by the House Appropriations Committee. The economizers, moreover, strengthen existing opposition to the President's proposal that the United States send armaments to its European friends without requiring payment. In the opinion of the Executive, the ECA and the arms-aid plan, which is the corollary to the Atlantic pact, rank ahead of Point Four in urgency. Plans for Point Four funds for the coming year barely exceed \$30,000,000, but the objection of Congress to Federal deficit financing or to expenditures that might lead to higher taxation is becoming a key consideration in the development of foreign policy.

Delays on Point Four

Disagreement within the Administration about the best means for carrying out the President's proposal has further delayed

the drafting of an explicit program. Mr. Truman advocated "a co-operative enterprise in which all nations work together through the United Nations and its specialized agencies wherever practicable." Then at Washington's request, UN Secretary-General Trygve Lie on June 2 submitted to the Economic and Social Council at Lake Success a proposal that the UN spend \$35,862,576 the first year and \$50,079,807 the second in order to start Point Four operations. Yet the State Department cannot by any means be certain that Congress will accept a UN-administered program, since members of the House and Senate manifest progressive dissatisfaction with the policy of entrusting *ad hoc* economic questions to international agencies or to settlement under international auspices.

For example, the Senate Commerce Committee, critical of the agreement reached on June 8 permitting Trans-Canada Airlines to open a passenger line from Montreal to New York City in competition with a United States line, on June 9 unanimously approved an amendment to the Civil Aeronautics Act requiring that the Administration submit future international air agreements to the Senate as treaties, although the agreements are negotiated by the executive branch of the government in accord with the Chicago International Air Convention of 1945, which the Senate accepted. The Lie program proposes expenditures by the UN itself and five specialized agencies: Food and Agriculture Organization, International Civil Aviation Organization, International Labor Organization, UNESCO, and World Health Organization. Another specialized agency, the International Bank for Reconstruction and Develop-

ment, also is "very much interested in Point Four," John J. McCloy, the Bank's retiring president, told the Senate Banking and Currency Committee on June 10; and William McChesney Martin, Jr., Assistant Secretary of the Treasury, told the same committee that the Bank "will have an increasingly important role in the future development of the international capital market." The United States and Britain together can control the policies of the Bank, which is not the case with other specialized UN agencies. The uncertain attitude of Congress toward the UN has caused the Administration to weigh whether it would be wiser to have an American or an international program of development.

Prospects For Investments

Another impediment to the formation of a clear-cut Point Four plan has been disagreement within the Administration over the problem of how to encourage American private investors to send surplus capital to underdeveloped areas. The Lie program is intended to blaze the trail for private investors, but the possibility of expropriation and other difficulties of doing business in sovereign underdeveloped countries is still a formidable deterrent to private investment. Moreover, as Dr. Harold H. Hutcheson observes in his *Foreign Policy Report*, "Government and Capital in Point Four" (June 1, 1949), Britain and France hesitate to encourage American investments in their colonial areas for fear "the entry of more American enterprise may be accompanied by demands for speedy reforms which will disrupt the present political and economic pattern of colonial administration." The National Association of Manufacturers on

May 24 recommended the conclusion of bilateral treaties between the United States and underdeveloped countries to safeguard Point Four investments, but only Uruguay has so far shown any clear interest in negotiating such a treaty. The feasibility of negotiating a Brazilian-American agreement along these lines may be explored when Brazilian Foreign Minister José Nunes Guimaraes visits Washington this autumn.* The Treasury and the State Departments have discussed the possibility that the Federal government might underwrite private investments by Americans abroad in the absence of investment treaties and, despite criticism that such underwriting might give an imperialistic tinge to American development programs in backward areas, the Administration has tentatively decided to ask Congress to authorize the Export-Import Bank to make limited guarantees to investors.

*See *Foreign Policy Bulletin*, June 3, 1949.

Integrated Foreign Policy

The tactical difficulties the Administration has faced in preparing the Point Four plan for Congress underlines the desirability of working out an integrated set of foreign policy programs and submitting them to Congress with a single coherent argument for the adoption of them all. Under present circumstances, the Administration sends foreign policy recommendations singly to the Capitol, thus running the risk that Congress may ignore a given program which is necessary for the success of measures it has already approved. Dr. Hutcheson's report states, for example, that unless the Marshall plan, which Congress accepts, "is supplemented with a concerted program to assist less developed areas, United States foreign economic policy will prove inadequate."

Present piecemeal methods used by the Administration in dealing with Congress keep foreign policy on an emergency, in-

stead of a long-term, basis. Moreover, as a result, the Administration understates its needs. The State Department cannot develop a satisfactory Point Four policy with \$30,000,000 and authority to guarantee American investments on a severely limited basis. While the State Department is inclined to justify the piecemeal procedure on the ground that otherwise Congress might approve nothing, the continuation of this method deprives the American public of an opportunity to see the requirements of foreign policy in full perspective. The President might illuminate the issue by launching an expert study of the question whether the United States will serve its interests better by limiting expenditures within classical budgetary practices, or by carrying out a foreign policy which may require deficit financing or an upward revision of the revenue tax law.

BLAIR BOLLES

British Elections Will Hinge On Course Of Recovery

British citizens, scenting the strong breezes of the coming general election, are also sniffing the air for a possible economic storm. The shape of both future events can be more clearly defined as the result of Conservative gains in the local elections of April and May and a dip in Britain's export figures for April. The important question now is the time of their arrival and the effect each will have on the other if they descend on the country simultaneously.

Coming Struggle for Votes

The Labor government, which in 1945 won a majority of approximately 150 seats in the House of Commons, is coming to the end of its constitutional term after putting through virtually all the nationalization measures and social legislation offered in the party's pre-election platform. By August 1950 at the latest, Prime Minister Clement Attlee must dissolve Parliament and call a new general election. He may take this step any time before the constitutional deadline—according to political practice, at the time most propitious for his party's fortunes—and he need give his opposition only eighteen days' notice. Since Britain's major current issues are mainly economic—ranging from the size of the meat ration on the everyday level to the possibility of sterling devaluation on the technical level—both parties

have an avid political interest in the economic future.

Prophecies as to the timing of the next election reflect this interest. Winston Churchill's warning to his Conservative followers on May 28 that the government might call a "snap election" in the autumn of this year was based on the assumption that the Attlee regime might want to go to the polls before a new crisis diminished its popularity. This reasoning is not unknown in Labor ranks. At the party's annual conference at Blackpool on June 7 Lord Strabolgi, a veteran Labor peer, urged a fall election "before the full height of the economic blizzard hits us." He was sharply called to order by Herbert Morrison, the party's leading campaign strategist, who warned that the Tories were fishing for hints of the polling date.

Most observers regard an autumn election as less likely than one next spring. The Attlee government must wait until the fall session of Parliament for final passage of two bills—the first nationalizing the iron and steel industry and the other reducing the veto power of the House of Lords to one year. After these steps are taken the field will be clear, but three further considerations are expected to delay an electoral test until spring. These are: 1) winter is not regarded as a good period for getting workers to the polls; 2) Labor needs time to refurbish its con-

stituency campaign machinery, once excellent but now faced with a Conservative counterpart revitalized by Lord Woolton; and 3) the Attlee regime may be counting on some slackening in British austerity and possible tax relief in 1950 if the national rate of recovery developed in 1948 can be maintained. Recent electoral setbacks in local contests are not regarded by British political experts as an indication of a coming Labor defeat, since national elections always result in a much higher proportion of the electorate going to the polls. Both major parties expect a heated fight in which every advantage will be pressed.

Another Crisis?

Can the rate of recovery, which enabled Britain with the aid of Marshall dollars to balance its export-import payments last year, be maintained? Those who foresee a new disaster for the crisis-weary British public base their case on the argument that British export prices are too high for the buyers' market which is beginning to transform world trade. Cited as evidence are the slackening of monthly export figures for February and April, reduction of orders garnered at the British Industries Fair in comparison with last year and the lack of competitive prices on some goods offered for the American market, the main target for the 1949

export drive. These factors have led to a spate of speculation on the advisability of devaluing sterling. Although Sir Stafford Cripps, Chancellor of the Exchequer, has denied that the government is considering devaluation, the speculation continues and in itself may prove damaging to export prospects.

In the past devaluation has offered no real advantage for the export drive since it would have meant cheaper prices for the goods Britain sold and dearer ones for the goods it bought. Only the return of the buyers' market, in which cheaper British prices would mean expanded sales, would make it feasible. And although this precondition—the buyers' market—is on its way in, it may take considerable time before the case for devaluation is proven. British economists since the end of the war have been anticipating the end of the sellers' market with hope as well as uneasiness. For, as competition returns to world trade, Britain, the customer, will benefit, especially as primary commodity prices fall, even though Britain, the seller, may lose. The terms of trade (the relationship between export and import prices) have been more unfavorable to Britain in the postwar years than to other ERP countries, but high British selling prices are partly due to the high prices paid for imported food and raw materials. The increased trade deficit in April reflects the fact that Britain has only begun to benefit from lower commodity prices.

What Britain appears to be facing in the more immediate future is not another grave crisis but a period of transition in which the export drive will see price adjustments in selected groups of goods and sales and production emphasis on items already competitively priced. Whether the British motor industry can continue to sell at the same rate in the dollar market now that Detroit is catching up with the backlog of American demand is questionable. But Harold Wilson, president of the Board of Trade, believes that the export market for British engineering products in Canada, for instance, can stand considerable expansion.

This does not mean that Cripps and his Labor colleagues can regard the situation with equanimity. The recovery of 1948

News in the Making

This summer, watch *developments in the Near and Middle East*. . . . Reports of growing terrorist preparations are coming in from Cairo, and fear is expressed that military coups similar to the one that occurred in Syria on March 30 when Husni Zayim seized power may occur in other countries of this region in the wake of the military defeats suffered by Arab countries in their conflict with Israel. . . . Recent simultaneous missions in the Middle East by Samuel Kopper, State Department expert on the area, and Sir William Strang, Permanent Under-Secretary of the British Foreign Office, are seen as a move to co-ordinate Anglo-American policy. Although both visits were officially described as quests for information, Washington and London have been under pressure to formulate over-all plans for the Middle East in order to facilitate settlement of various aspects of the thorny Palestinian problem, the most serious of which at this moment concerns arrangements to be made for taking care of *Arab refugees from Palestine*, variously esti-

was won by the Chancellor's wage-stabilization program and its concomitant austerity. Trade union restiveness, although quelled at the Blackpool conference, is demonstrated by a dock strike (almost an annual affair) and a dispute in the nationalized railways, the latter being the more serious of the two.

By and large, however, Sir Stafford's calls for sacrifice have evoked admiration rather than resentment. The Conservatives, led by Churchill who singled out the austerity program for scathing criticism as early as 1946, have contributed to Cripps reputation by identifying him in the past with the policies which hard-headed realism forced upon the Labor government in 1947 and afterwards. Although the doughty Tory warrior continues to talk of the "prostitution of a fine intellect" in his former envoy to Moscow, Churchill is likely to find Cripps as his main opponent in the political contest of 1950.

WILLIAM W. WADE

mated at between 500,000 and 800,000. . . . Mark F. Ethridge, retiring American chairman of the United States delegation to the *Lausanne conference*, where the UN Conciliation Commission, a three-power agency (the other members are France and Turkey), is seeking to arrange a settlement of the Palestine situation, reported to Secretary of State Dean Acheson in Paris on June 11 that the negotiations had reached a deadlock. Arab states are said to be averse to making any move considered favorable to Israel for fear of increasing internal unrest. . . . Meanwhile leading Arabs are weighing the possibility of turning away from political quarrels in the Arab League to *discussion of social welfare programs*. An opportunity for such discussion will be offered by the social welfare seminar which will be held in Lebanon under the auspices of the UN from the middle of August to the second week in September. . . . Labor tension which exploded into violence May 30 in the strategic *Bolivian tin mines* has been attributed by government sympathizers to "Fascist and Communist" forces which want to set up a nationalist military dictatorship and are receiving "passive help" from the Perón regime in neighboring Argentina. Exiled leaders of the nationalist opposition, however, claim the La Paz government is a tool of the "tin barons" and provoked the strikes and riots by repressive policies. Civil war, narrowly averted, is still a possibility in the Bolivian picture, with the army divided in its allegiances and discontent spreading.

India—New World Power

Two years after achieving independence, India is assuming a key role in all discussions of Asian affairs. What has been happening in India and in Pakistan since 1947? What are the prospects for the future? READ

INDIA AND PAKISTAN: PROGRESS REPORT
by Phillips Talbot

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